AR43

USM Corporation

Research/Systems/Manufacturing

Annual Report for the Fiscal Year ended February 28, 1969

Featured on the cover, our corporate signature and symbol redesigned to reflect the company's name change from United Shoe Machinery Corporation to USM Corporation. Included are the key words which describe USM basic corporate strengths — Research, Systems and Manufacturing — which are covered in a special section beginning on page 18.

Highlights

Fiscal years ended	February 28, 1969	February 29, 1968	% Change
Gross revenues	$356,109,000	$289,259,000	+23
Operating income	$36,031,000	$26,197,000	+38
Net income	$16,764,000	$12,947,000 [2]	+29
Dividends on preferred and preference stock	$1,256,000	$302,000	+316
Per share — preferred	$1.50	$1.50	—
Per share — preference	$1.23 [1]	—	—
Net income applicable to common stock	$15,508,000	$12,645,000 [2]	+23
Per share	$3.47	$2.78 [2]	+25
Dividends paid on common stock	$6,926,000	$6,744,000	+3
Per share	$1.55	$1.50	+3
Earnings retained in business	$8,931,000	$5,901,000	+51
Per share	$2.00	$1.28	+56
Average number of common shares outstanding	4,469,098	4,548,952	−2
Number of shareowners	22,607	20,606	+10
Number of employees	25,895	23,250	+11

[1] *Equivalent to 7/12 of annual dividend requirement of $2.10.*

[2] *Including extraordinary items of $162,000 or $.03 per share.*

The common per share amounts reflect the two-for-one split in July 1968.

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Annual Meeting
The Annual Meeting of Shareowners of the Corporation will be held at 10:00 A.M., Thursday, July 24, 1969 in the Georgian Room of the Statler-Hilton Hotel, Park Square, Boston, Massachusetts.
A formal notice of the meeting together with a proxy statement and form of proxy will be mailed to Shareowners in June.

Stock Transfer Agents
Old Colony Trust Company, Boston
Manufacturers Hanover Trust Company, New York

Registrars of Stock
The First National Bank of Boston
First National City Bank, New York

Independent Certified Public Accountants
Lybrand, Ross Bros. & Montgomery
Boston, Massachusetts

World Headquarters
140 Federal Street,
Boston, Massachusetts

To USM Shareowners:

USM Board Chairman William S. Brewster with President Herbert W. Jarvis

Fiscal 1969 was a record year for USM, with gross revenues the highest in its history. Despite the handicap of currency devaluations and additional taxes the earnings growth rate over 1968 exceeded the percentage of volume improvement.

Volume reached an all-time high of $356,109,000 for a gain of $66,850,000, or 23 per cent over last year's $289,259,000.

Net income increased to $16,764,000 from $12,947,000 the previous year or to $3.47 per share from $2.78, a gain of 25 per cent with all major areas of the corporation contributing to this improvement. Allowing for conversion of all $2.10 series preference shares issued in connection with USM's acquisition of Farrel Corporation, earnings per share would have amounted to $3.31 in fiscal 1969, for a gain of 19 per cent. Had there been no additional U.S. income tax surcharge USM's net income last year would have increased an additional $0.12 per share before conversion.

A significant portion of this improvement was the result of internal growth which has been the pattern for several years. It was aided, however, by the addition of three companies which expanded USM's basic product lines and opened new markets.

The most important of these acquisitions was that of the Farrel Corporation of Ansonia, Connecticut. Farrel produces a variety of heavy industrial machinery for the plastics, rubber, paper, steel, sugar and railroad industries. During its last full year of independent operation, 1967, it earned $3,970,000 on sales of $71,479,000. Farrel sales and earnings are included in our figures for the last seven months of our latest fiscal year. Its earnings trend showed marked improvement during its final quarter over the spring and summer months. Plans are underway to transfer several of our related operations to the Farrel group.

Two other companies, smaller in size, acquired last year, have expanded USM's capabilities in the plastics machinery market. The first was John

Orme, Ltd. of Rushden, Northhampton, England, acquired in March 1968 and announced previously. Orme specializes in rotational molding equipment and, through USM, is now able to develop its markets on a worldwide scale. The second acquisition was Standard Tool Company of Leominster, Massachusetts, whose major products are molds and other tooling for the plastics industry.

In these and other acquisitions we are guided by a philosophy of expanding our capabilities to help the industries we serve increase their productivity. We have followed a policy of acquiring selected, related businesses, and we plan to continue our diversification program by combining such acquisitions with internal developments directed toward broadening our line of automated machinery, manufactured components and engineered systems. Utilization of new technology and materials in the footwear, transportation, construction, and apparel industries will create new and increasing opportunities for further growth.

In a litigation milestone, the Justice Department's 22-year-old antitrust suit against the company finally ended with the signing of a Consent Decree by USM and the Justice Department which requires divestiture of a portion of our U.S. shoe machinery business and continued licensing of U.S. shoe machinery patents. Because of USM's successful diversification the impact of this Decree will be far less than it would have been 20 — or even 10 — years ago. USM's international business and that outside the shoe machinery area domestically remain essentially unaffected. USM also settled the last of the treble damage suits arising from the government case.

Shareowner approval of USM Corporation's new name from the old United Shoe Machinery Corporation emphasized the changes underway to expand USM's opportunities in providing labor-saving systems to a variety of manufacturing industries faced with a continuing shortage of skilled manpower and higher labor costs.

As additional support of management's confidence in the future, shareowners approved splitting the common stock two-for-one, increasing the authorized shares from 7,200,000 (after the split) to 10,000,000 and issuing an additional class of preference shares. An increased dividend on the new, split shares went into effect October 19, 1968, raising the annualized rate from $1.50 to $1.60. USM is one of only 21 companies out of more than 1,200 listed on the New York Stock Exchange which have paid uninterrupted, consecutive quarterly dividends since the turn of the century.

A newly formed USM International Finance Corporation brought out a 15-year bond issue of 60,000,000 Swiss francs ($13,920,000) through a consortium of Swiss banks. The bonds were offered in December 1968 at 99 with a coupon of 5½% — a very favorable rate in a money market now characterized by much higher costs. The new funds will be used abroad to finance international growth via acquisition and internal expansion. USM was one of the few American companies granted this type of Swiss financing in 1968.

In our efforts to keep the investment community better informed, in May 1968, we presented the USM story in a major way for the first time to the Financial Analysts Federation at its annual convention in Boston. An abbreviated version was sent to shareowners in the post meeting report.

Our Board was strengthened through several additions. John M. Fox, Chairman of the Board of United Fruit, was elected September 25. Upon the completion of the Farrel merger on December 31, Messrs. A. Austin Cheney, Chairman of the Board, Franklin Farrel, 3rd, President and George A. Goss, Jr., all members of Farrel's Board, became directors of USM. Upon their retirement from our company Messrs. Robert D. Salinger, Vice President and General Counsel, and Robert M. Bigelow, Vice President of Research, resigned from the Board. We thank these men for their long and loyal service to the company.

Looking to the future, we remain confident that we will realize our average annual growth rate of 15 per cent a year, enabling us to attain our previously announced goal of doubling earnings between 1968 and 1973. The short-term outlook for this fiscal year indicates the probability of a temporary leveling off in earnings due to planned investments and several external influences.

The major factors include the strength of the United States economy, the possibility of foreign currency devaluations, the magnitude of expected increased taxes both here and abroad, and the timing of divestiture. In addition, the prospect of short-term dilution resulting from acquisition of high growth rate companies under consideration, the high interest cost of increased working capital requirements, and potential legal restrictions on significant acquisitions will have a further influence on this year's fiscal results.

To our nearly 26,000 employees the world over who made last year's good results possible, we express our thanks and our request for continued help.

William S. Brewster

William S. Brewster
Chairman and Chief Executive Officer

Herbert W. Jarvis

Herbert W. Jarvis
President and Chief Operating Officer

May 6, 1969

Financial Review

Gross Revenues Attain Record Levels

USM's consolidated gross revenues of $356,109,000 for fiscal 1969 established a new corporate record and represented an increase of 23 per cent over the previous record attained last year. The revenues, including $4,305,000 in sales of outstanding shoe machinery, are analyzed below by operating group. (000's omitted)

Domestic	**Fiscal 1969**	**Fiscal 1968**	**% Change**
Machinery	$66,051	$59,155	+ 12
Fastener	35,290	31,982	+ 10
Chemical	21,482	19,676	+ 9
Fabrication	19,672	17,210	+ 14
Canada	7,717	7,282	+ 6
Other	6,531	6,327	+ 3
	156,743	141,632	+ 11
Farrel *	39,062	—	—
Total	195,805	141,632	+ 38
International			
British Group	84,295	79,743	+ 6
Continental Group	66,546	60,449	+ 10
Latin American & Other	9,463	7,435	+ 27
Total	160,304	147,627	+ 9
Grand Total	$356,109	$289,259	+ 23

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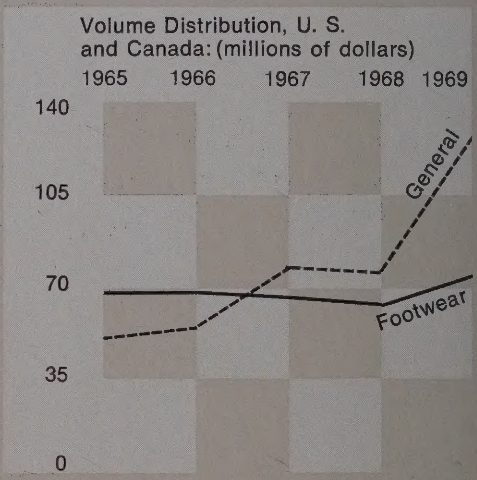
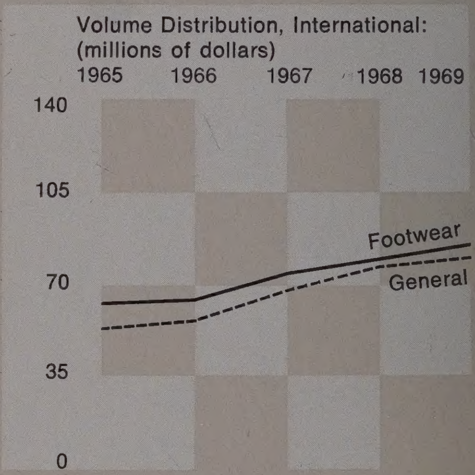
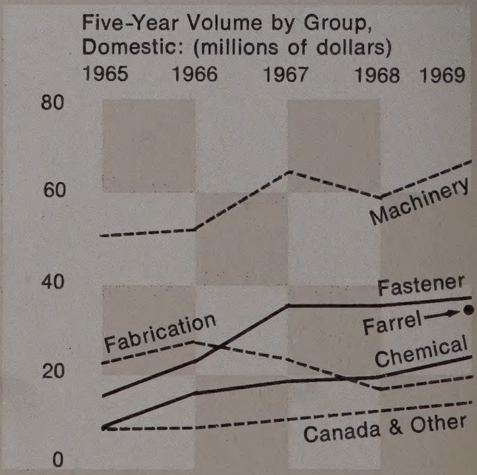
* *Farrel acquisition effective as a purchase for accounting purposes on August 1, 1968.*


Volume Distribution, U. S. and Canada: (millions of dollars)


Volume Distribution, International: (millions of dollars)


Five-Year Volume by Group, Domestic: (millions of dollars)

Consolidated Net Income

For fiscal 1969, USM's consolidated net income resumed its upward trend and reached a level of $16,764,000 or $3.47 per share. This represented a per share increase of 25 per cent over fiscal 1968's $12,947,000 or $2.78 per share. Results for fiscal 1969 include the acquisitions of the Farrel Corporation, Standard Tool Company and John Orme, Ltd.

Purchase of Shares

Your Board has authorized the purchase of up to 150,000 shares of common stock for use primarily in future acquisitions. The purchases are made from time to time at prevailing market prices, either on or off the market. The purchase of additional shares may be authorized in the future.

Balance of Payments
The Swiss financing discussed previously was the result of negotiations started in 1965 when the U. S. Voluntary Balance of Payments Program was in effect. It is but one example of USM's continuing cooperation with the U. S. Government's attempt to improve the balance of payments position of the United States. The introduction of the more restrictive mandatory program in 1968 has made this effort more complex and costly. However, the availability of the proceeds of the Swiss bond issue has allowed USM to continue its overseas expansion program without undue restriction.

Farrel Merger
Farrel Corporation was officially merged with USM Corporation and became a company division on December 31, 1968, after approval by the shareowners of both companies. Its results were consolidated for the seven months' period — August 1, 1968 to February 28, 1969. The terms of the merger provided for the issuance of one share of USM convertible preference stock, $2.10 series, for each share of Farrel stock. Each share of this USM preference stock is initially convertible into 1.18 shares of USM common stock and is entitled to an annual dividend of $2.10.

For the calendar year ended December 31, 1968, the Farrel Company Division earned less net income than the year before when it earned $3,970,000 on $71,479,000 sales. This decline in 1968 earnings was attributed to a number of factors, including slightly lower net sales, unusual costs on several large orders received in prior years and shipped in 1968, expenses incurred in connection with the new engineering building, higher than ordinary expenses in replacing parts of machines shipped in prior periods and the adverse effect of the 10 per

Summary of International Operations (1)

(000's omitted)	Fiscal Year	British Group	Continental Europe	Latin America & Other	Total
Volume of Business	1969	$84,295	$66,546	$9,463	$160,304
	1968	79,743	60,449	7,435	147,627
Equity In Net Assets	1969	56,999	30,864	5,285	91,389 (2)
	1968	54,421	29,040	6,595	88,587 (2)
Equity In Net Income	1969	6,446	2,331	397	7,526 (4)
	1968 (3)	6,548	2,205	438	7,120 (4)
Dividends (Net)	1969	3,129	1,760	225	5,114
	1968	3,220	676	163	4,059
Number of Employees	1969	10,474	4,218	880	15,572
	1968	10,046	4,156	828	15,030

(1) This data reported according to management responsibility.

(2) These totals reflect the unallocated reserve for international operations.

(3) Before unrealized working capital loss, principally in the British Group resulting from the devaluation of the pound sterling.

(4) These totals reflect equity in net income after dividend withholding taxes, charges against income for reserve accounts and other miscellaneous expenses attributable to the International Area.

cent Federal income tax surcharge. The impact of most of these factors was felt in the spring and summer months, after which the downward trend of profits was reversed. The final quarter was considerably improved over the preceding quarter.

Capital Expenditures
During fiscal 1969 USM's capital expenditures were $26,464,000 excluding the fixed assets acquired in the Farrel merger. This compares with the previous year's figure of $30,058,000. The expenditures were divided as follows: (000's omitted)

	1969	1968
USA and Canada	$16,363	$17,122
International	10,101	12,936
Total	$26,464	$30,058

Inpak Systems Division Sold
Inpak Systems Division was sold in November since over the years it failed to meet USM's profit standards. The sale was above book value and involved $800,000 in cash and a convertible note to USM in the principal amount of $800,000. Inpak's packaging equipment is marketed on a lease basis through paper and packaging producing companies.

Litigation
During fiscal 1969 USM settled two important legal cases. The first involved settlement with the Justice Department of our antitrust litigation which began in 1947. The second was a settlement with The Hanover Shoe, Inc.

The settlement with the Justice Department was approved on February 20, 1969 when the District Court entered a Supplemental Judgment (the "1969 Decree") on the consent of the Federal Government and the corporation. The 1969 Decree requires the corporation to divest itself by February 20, 1971 of shoe machines, manufacturing assets, and certain patents for shoe machine models which accounted for $8,500,000 in domestic gross revenues in the fiscal year ended February 29, 1968. The divestiture must be to a purchaser or purchasers who intend to sell or lease shoe machinery as viable competitors, and must be to at least two such purchasers with certain exceptions. The corporation has transferred to two wholly-owned subsidiaries the shoe machines, patents and manufacturing assets of the shoe machine models of which it proposes to divest itself under the 1969 Decree.

The 1969 Decree requires the corporation to provide a purchaser of divested machines with service and training for providing service for two years, and parts for ten years, following divestiture. The Decree also contains provisions restraining competition with divested machine models for a period of at least five years.

The 1969 Decree provides for reasonable-royalty licensing until February 20, 1979 (or eight years from the completion of divestiture) of all U.S. patents for shoe machinery or certain shoe machine products. It also requires the corporation to extend certain privileges to persons intending to resell or lease shoe machinery.

Under the 1969 Decree, both that decree and the earlier decree ("1953 Decree") will terminate ten years from the completion of divestiture, unless the court finds upon application by the Federal Government that adequate competitive conditions in the shoe machinery market have not been brought about. Certain provisions of the 1953 and 1969 Decrees will terminate at earlier dates.

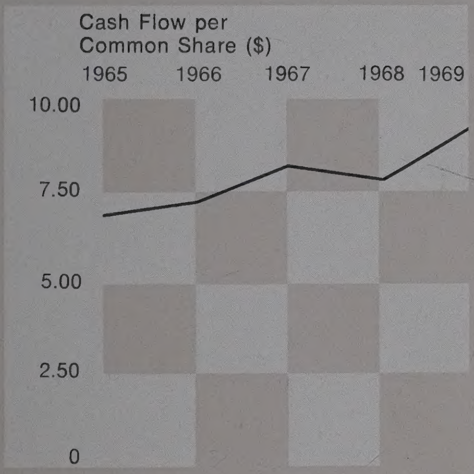
At the time the 1969 Decree was approved, the lessees could have purchased the machines to be divested for a total of about $40 million. USM has transferred the machines plus additional related assets to be divested to two new subsidiaries, Transamerican Shoe Machinery Corporation and Inter-Coastal Shoe Machinery Corporation. USM has two years to make this divestiture which will provide management adequate time to develop plans to meet the needs of its shareholders, customers and employees.

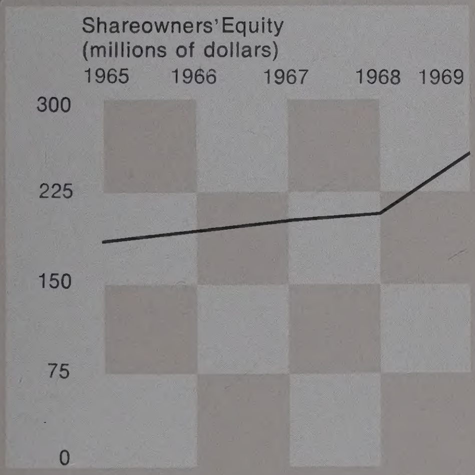
The second settlement involving The Hanover Shoe, Inc., resulted in an after-tax cost of about $3,000,000. On June 17, 1968, the Supreme Court reversed the judgment of the Court of Appeals for the Third Circuit in The Hanover Shoe, Inc. case and remanded the case for further proceedings consistent with its opinion, which in effect, reinstated the award by the District Court against the company. It was apparent that the company's shareowners' best interests would be served by an out-of-court settlement with Hanover in order to avoid the extra delay, expense and management diversion that would otherwise be involved in extending the litigation. The payment was treated as an adjustment to retained earnings and was not charged to current earnings.

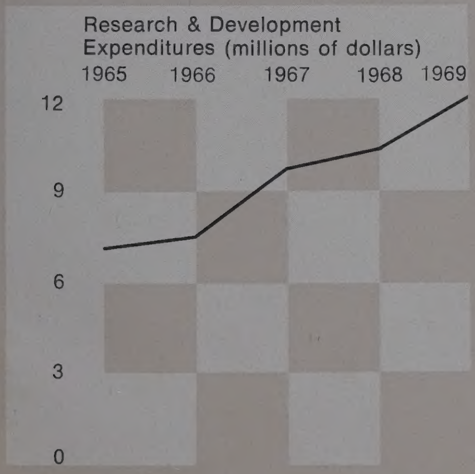
These two settlements remove the legal uncertainties and diversion of effort this litigation has imposed upon your company, and USM is now free to proceed more aggressively toward its growth goals.

In the Proxy Statement for the Shareowners' Meeting to approve the Farrel merger, certain litigation of Farrel was described. This litigation is also described in the Notes to the Consolidated Financial Statements included in this report.

Tax Case
After exhausting every available administrative step for recovering its claims out of court, USM filed suit on December 31, 1968 against the Federal Government in the U.S. District Court of Massachusetts for recovery of additional tax assessments it was required to pay in 1964. The company seeks recovery of about $11,300,000 plus substantial interest. The issue of the case is whether profits derived from the forced sale of shoe machinery previously outstanding under lease were ordinary income rather than capital gains, as reported by the company. Sales of this machinery were made in the years 1956-1962 pursuant to the antitrust decree against USM. It is not possible







to predict when the case will be resolved.

Executive Stock Purchase Plan

In July 1968 our shareowners approved a Career Executive Incentive Stock Purchase Plan for selected key employees to help the company attract and retain executives of outstanding ability in the face of growing competition from other firms. Your Board believed that while the existing executive incentive compensation programs had been helpful in recognizing short-term performance, they did not, by themselves, provide the long-term career interest in the corporation which is engendered by a career stock purchase plan.

Under the adopted plan, options are granted by the Compensation Committee which is comprised of Board members who are ineligible to participate in the plan. The shares purchased by any key employee are priced at 40% of market price and will be subject to strict prohibitions against disposition and a requirement that they be re-sold to the corporation at their purchase price in specified circumstances. This prohibition and the requirement of resale gradually lapse after five years on portions of shares purchased and as the employee's service continues. A total of 107,200 shares was made available to 59 key employees under the plan during the year. On April 9, 1969 options on an additional 40,000 shares were granted to 74 employees subject to SEC registration.

USM Bonus Plan

Based on the year's results, the Compensation Committee of the Board awarded bonus payments of $222,000 to 24 key employees. This compares with $28,500 last year to 8 employees. Besides USM's bonus plan for key management, the company maintains several other incentive compensation plans for its sales, manufacturing, research and staff personnel both domestically and internationally. Each plan is designed to offer the employee greater motivation in increasing the company's profitability. Awards are made on the basis of results.

Insurance and Fringe Benefits

Planning and monitoring life, medical, disability, pension and savings plan programs, as well as other forms of indirect compensation, are increasingly necessary in view of higher costs and greater complexity. During the year, USM consolidated the purchase of its major worldwide insurance requirements. This action is expected to result in a significant reduction in premiums as well as closer controls and broader forms of asset protection.

Consolidated Balance Sheets

Assets

Current assets:	**February 28, 1969**	(note N) **February 29, 1968**
Cash	$ 10,941,000	$ 8,381,000
Short-term investments at cost, which approximates market	20,694,000	14,539,000
Accounts and notes receivable, less allowances for doubtful accounts of $2,151,000 and $1,363,000	69,026,000	48,073,000
Inventories at lower of average cost or market:		
Raw materials	19,200,000	16,972,000
Merchandise in process	33,419,000	13,841,000
Finished merchandise	53,752,000	48,140,000
	106,371,000	78,953,000
Total current assets	207,032,000	149,946,000
Leased machinery at cost, less allowances for depreciation of $56,520,000 and $56,475,000 and machines and parts on hand at cost $20,992,000 and $23,357,000 (note D)	67,914,000	70,701,000
Property, plant and equipment at cost:		
Land and buildings	63,252,000	54,215,000
Manufacturing machinery, tools and equipment	108,468,000	79,308,000
Vehicles, furniture and fixtures	15,147,000	13,275,000
Unfinished construction	4,264,000	1,928,000
	191,131,000	148,726,000
Less allowances for depreciation (note D)	103,009,000	77,273,000
	88,122,000	71,453,000
Goodwill, patent rights and other intangibles at cost less amortization of $1,332,000 and $1,909,000 (note A)	8,580,000	4,617,000
Other assets	13,939,000	7,383,000
	$385,587,000	$304,100,000

The accompanying notes are an integral part of the financial statements.

Liabilities

Current liabilities:	**February 28, 1969**	(note N) **February 29, 1968**
Notes and loans payable to banks	$ 6,217,000	$ 6,362,000
Accounts payable, trade	19,868,000	12,245,000
United States and foreign income taxes	16,412,000	14,046,000
Accrued expenses and other liabilities	19,903,000	12,456,000
Total current liabilities	62,400,000	45,109,000
Long-term debt (note E):		
5¾% sinking fund debentures due 1992	25,000,000	25,000,000
5½% loan payable	13,920,000	—
Notes and mortgages less current maturities	1,981,000	2,530,000
Total long-term debt	40,901,000	27,530,000
Provisions for pensions (note F)	7,852,000	7,539,000
Reserve for foreign operations (note A)	1,759,000	1,469,000
Deferred income taxes (note G)	5,709,000	3,106,000
Other noncurrent liabilities	2,666,000	2,491,000
Minority interest	17,726,000	17,020,000
Litigation and contingent liabilities (note H)		

Shareowners' Equity

Capital stock:		
Preferred, 6% cumulative, par value $25 per share, authorized 600,000 shares; issued 423,908 shares (note I)	10,598,000	10,598,000
Convertible preference stock, $2.10 series, cumulative, without par value, authorized 778,800 shares, outstanding 772,609 shares (notes A, I and J)	38,630,000	—
Preference stock, without par value, authorized 600,000 shares (note I)		
Common, par value $12.50 per share, authorized 10,000,000 shares; issued in 1969, 4,739,219 shares; in 1968, 4,731,916 shares (notes A, J and K)	59,240,000	59,149,000
Additional paid-in capital (note J)	523,000	39,000
Retained earnings (notes C and E)	153,702,000	144,771,000
	262,693,000	214,557,000
Less cost of shares in treasury Preferred: 1969 and 1968, 222,892 shares Common: 1969, 252,404; 1968, 241,654 shares	16,119,000	14,721,000
Total shareowners' equity	246,574,000	199,836,000
	$385,587,000	$304,100,000

Consolidated Statements of Income and Retained Earnings

For Fiscal Years Ended	February 28, 1969	(note N) February 29, 1968
Gross revenues:		
Sales and other operating income	$311,432,000	$243,284,000
Leased machinery revenue	44,677,000	45,975,000
	356,109,000	289,259,000
Costs and expenses (notes D and N):		
Cost of sales	204,371,000	155,940,000
Cost of leased machinery operations	18,088,000	19,169,000
Selling and administrative	85,680,000	78,130,000
Research and development	11,939,000	9,823,000
	320,078,000	263,062,000
Operating income	36,031,000	26,197,000
Interest expense	(2,226,000)	(1,933,000)
Other income less other charges	2,049,000	2,991,000
Income before income taxes	35,854,000	27,255,000
Provision for United States and foreign income taxes (note G)	17,220,000	12,588,000
Income before minority interest	18,634,000	14,667,000
Minority interest	1,870,000	1,882,000
Income before extraordinary items	16,764,000	12,785,000
Extraordinary items (note L)	—	162,000
Net income	16,764,000	12,947,000
Retained earnings at beginning of year:		
As previously reported		143,003,000
Less — Hanover litigation settlement net of related tax benefit ($3,238,000) (note C)	—	2,862,000
As restated	144,771,000	140,141,000
	161,535,000	153,088,000
Cash dividends paid, including $519,000 paid to Farrel stockholders between August 1, and December 31, 1968 (preferred $1.50 per share; convertible preference $2.10 series, $0.11 per share; common $1.55 per share in 1969 and $1.50 per share in 1968)	7,833,000	7,046,000
Excess of cost over par value of re-acquired shares retired, less $17,000 allocated to additional paid-in capital	—	1,271,000
	7,833,000	8,317,000
Retained earnings at end of year (note E)	$153,702,000	$144,771,000
Net income per share of common stock (note M):		
Income before extraordinary items	$3.47	$2.75
Extraordinary items	—	.03
Net income	$3.47	$2.78
Pro forma per share of common stock (note M)	$3.31	

The accompanying notes are an integral part of the financial statements.

Source and Use of Funds

Source

For Fiscal Years Ended	February 28, 1969	(note N) February 29, 1968
Net income	$ 16,764,000	$ 12,947,000
Depreciation and amortization (note D)		
Leased machinery	11,562,000	12,071,000
Property, plant and equipment	8,672,000	8,473,000
Intangible assets	497,000	657,000
Increase in deferred income taxes (note G)	628,000	1,030,000
Funds provided from operations	38,123,000	35,178,000
Fixed assets sold or retired, less accumulated depreciation		
Leased machinery	4,837,000	3,238,000
Property, plant and equipment	1,178,000	2,169,000
Increase in current liabilities	5,943,000	(381,000)
Issue of convertible preference stock (note A)	38,940,000	—
Issue of new long-term debt (note E)	13,920,000	25,000,000
Stock issued for options and acquisitions (note J)	3,815,000	—
Increase in minority interest	706,000	32,000
All other sources	828,000	1,189,000
Total	$108,290,000	$ 66,425,000

Use

	February 28, 1969	February 29, 1968
Farrel net assets (excluding cash) as of August 1, 1968 (note A)	$ 36,186,000	—
Property, plant and equipment	12,852,000	$ 15,324,000
Leased machinery		
Machines shipped	14,898,000	14,646,000
On hand and in process	(1,286,000)	88,000
Increase in inventories	5,079,000	3,367,000
Increase in accounts receivable	10,609,000	(1,966,000)
Decrease in notes and mortgages	549,000	9,581,000
Dividends paid	7,833,000	7,046,000
Purchase of treasury common stock	4,998,000	3,255,000
Hanover litigation settlement — net (note C)	2,862,000	—
All other uses	4,995,000	2,903,000
Total	$ 99,575,000	$ 54,244,000
Increase in cash and short-term investments	$ 8,715,000	$ 12,181,000

The accompanying notes are an integral part of the financial statements.

Notes to Consolidated Financial Statements

A. Principles of Consolidation

The consolidated financial statements include the accounts of the parent company and all subsidiaries, after elimination of intercompany transactions. The undistributed earnings of foreign subsidiaries are substantially reinvested in countries of origin. The excess of the purchase price of acquired subsidiaries over the value ascribed to the net assets at the date of acquisition is included in goodwill and is not being amortized except where management determines that the life of this intangible asset is limited.

A reserve for foreign operations is provided by an annual charge to income of $400,000. Unrealized gains and losses from minor fluctuations in foreign exchange rates and certain contingencies of foreign operations are credited or charged to this reserve. See page 5 for Summary of International Operations.

On August 1, 1968, the company agreed to acquire all of the outstanding common stock of Farrel Corporation in exchange for 778,800 shares of convertible preference stock, $2.10 series. This transaction has been accounted for as a purchase, and the consolidated statement of income for the year ended February 28, 1969 includes the results of operations of Farrel from August 1, 1968. During the year, the company also acquired Standard Tool Company, John Orme, Limited and subsidiaries and three other foreign companies.

B. Divestiture

On February 20, 1969, the company's antitrust suit concluded in a consent decree in which the company agreed, among other things, to divest itself within two years of shoe machinery product lines producing an aggregate of $8,500,000 in annual domestic gross revenues from lease and sale of shoe machinery. The financial effect, if any, of this divestiture cannot presently be determined because the terms, proceeds, ancillary operations and related costs, and other features are unknown. See page 6 for further details on this matter.

C. Hanover Litigation Settlement

On June 17, 1968, the Supreme Court reversed the judgment of the Court of Appeals for the Third Circuit in The Hanover Shoe, Inc. case and remanded the case for further proceedings consistent with its opinion, which in effect, reinstated the award by the District Court against the company.

This litigation was settled with Hanover for $6,100,000 and has been reflected, net of related tax benefit, as a prior period adjustment to retained earnings.

D. Depreciation Policy

Depreciation and amortization of $20,731,000 in 1969 and $21,201,000 in 1968 are included in costs and expenses. For the most part depreciation allowances are calculated on a straight-line basis, except that the declining balance method is used in certain foreign subsidiaries. The company and its subsidiaries, in most instances, use accelerated depreciation methods for tax purposes.

E. Long-Term Debt

The 5¾% debentures are redeemable through purchase at prices decreasing from 105.24% of face value currently to 100% in 1988, or sinking fund redemptions of $1,250,000 to $2,500,000 on June 15, 1973 and on each June 15 thereafter, at 100% of face value. The indenture contains restrictive covenants which provide, among other things, for certain restrictions on the payment of cash dividends or acquisition of common stock. The amount of consolidated retained earnings free of such restrictions at February 28, 1969 was approximately $23,243,000.

Bonds representing the 5½% loan were issued in December 1968 by USM International Finance Corporation, a wholly-owned subsidiary, to finance the company's international operations. The loan, guaranteed in full by the company, is payable by the subsidiary in five annual installments of 12,000,000 Swiss francs (currently approximating $2,784,000) from 1980 to 1984. The subsidiary has the option to prepay the installments at prices decreasing from 104% of par value in 1972 to 101% in 1979.

Notes and mortgages consist principally of a $1,000,000 6% note, payable by a subsidiary in installments from 1970-1982 and miscellaneous long-term notes and mortgages, approximating $916,000 payable 1970-1974 at interest rates ranging from 5.0% to 7.5%.

In April 1969 the company negotiated a revolving credit agreement with certain banks providing for up to $12,000,000 of borrowings for a two-year period with interest fixed at the prime rate. The agreement contains restrictive covenants which provide, among other things, for the maintenance of consolidated working capital of at least $75,000,000.

F. Pensions

The company's pension plans cover substantially all of its foreign and domestic employees. Charges to income for the cost of these plans amounted to approximately $7,600,000 in 1969 and $6,700,000 in 1968. Costs accrued are funded in the United States and some of the foreign subsidiaries. At February 28, 1969, the unaccrued past service costs, estimated at approximately $37,000,000, are being amortized over a 26-year period, except that certain foreign subsidiaries have adopted shorter periods.

The actuarially computed value of vested benefits for the domestic plans exceeded the total of the pension funds and the balance-sheet pension accruals, as of the fiscal 1969 valuation date, by approximately $13,000,000.

G. Provision for Income Taxes

The investment tax credit and comparable foreign investment allowances totaling $323,000 in 1969 and $369,000 in 1968 have been applied in the reduction of income tax expense. United Kingdom investment grants and other foreign investment incentives not related to income tax expense, totaling $562,000 in 1969 and $759,000 in 1968 net of related tax effect, have been credited to other income.

Deferred income taxes arise principally from the use of accelerated depreciation for tax purposes.

H. Litigation and Contingent Liabilities

In connection with the patents under which Farrel manufactures Swimming Rolls, Beloit Corporation has brought a declaratory judgment action against the company and its licensor, Edward Kusters of Krefeld, Germany, in the United States District Court for the Southern District of New York. In this action, Beloit seeks a declaration that the two patents licensed to Farrel are invalid and unenforceable and that Beloit does not infringe either of these patents. Kusters and Farrel have counterclaimed alleging infringement of both patents and seeking an injunction prohibiting future infringement and damages for past infringements. During this action, Beloit-Kleinewefers Textile Machinery Corporation has been joined as an intervenor-plaintiff, seeking the same relief as Beloit. Kusters and Farrel have also filed a similar counterclaim against Beloit-Kleinewefers. The parties are presently conducting extensive discovery proceedings in accordance with Federal Court practice.

Atlantic Cement Company has brought action against Allis-Chalmers and Farrel in the Supreme Court of the State of New York seeking damages in the sum of $4,728,000 based on alleged defects in gears manufactured by Farrel and installed in cement mills purchased by Atlantic from Allis-

Chalmers. Defendants have answered the complaint, denying the material allegations thereof and asserting various affirmative defenses.

Sociedad Mario Mercade y Hijos has brought action against Sucesores de Abarca, Inc., Farrel and Commercial Insurance Company in the Superior Court of Puerto Rico alleging damages of $1,184,000 for loss of a crop due to a failure of a sugar mill as a result of defects in the parts supplied by the defendants. The action is still pending.

The financial effect of these actions, if any, upon the company, is not determinable at this time.

The outcome of the company's efforts to recover approximately $11,300,000 of U. S. taxes previously paid cannot be foreseen at present.

Under acquisition agreements, the company may be liable to former owners for additional payments contingent upon additional profits of the acquired companies of up to approximately $1,600,000.

I. Preferred Stock

Preferred stock is entitled to $35 per share in liquidation. The amount of $35 per share for the 201,016 shares outstanding is $2,010,000 greater than their aggregate par value.

During the year a new class of series preference stock, without par value ranking junior to the existing preferred stock as to dividends and assets, and issuable in one or more series, was created and 600,000 shares (later increased to 1,378,800 shares) were authorized. The Board of Directors is authorized to provide for the issuance of such stock from time to time in series and to fix before issuance the number of shares, the preferences, rights and restrictions of each series.

In connection with the acquisition of Farrel Corporation (see note A), 778,800 shares of convertible preference stock, $2.10 series, cumulative without par value, were issued. Each share is initially convertible into 1.18 shares of USM common stock, par value $12.50 per share (subject to certain antidilution provisions), may not be redeemed before March 1, 1974 and in case of liquidation or dissolution of the company is entitled to $50 per share ($38,630,000). Each share has one vote per share.

J. Common Stock and Additional Paid-in Capital

During the year, the shareowners approved a two-for-one split of the common shares and increased the authorized shares from 3,600,000 shares, par value $25 per share, to 10,000,000 shares, par value $12.50 per share. The fiscal 1968 statements have been restated to give retroactive effect to the foregoing.

Changes during the year ended February 28, 1969 in common stock and additional paid-in capital were as follows:

	Shares Out-standing	Additional Paid-in Capital
Balance at beginning of year	4,490,262	$ 39,000
Conversions of 6,191 shares of $2.10 series preference stock	7,303	218,000
Treasury shares acquired	(128,250)	
Excess of market value over cost of treasury stock:		
issued upon exercise of stock purchase rights	103,900	179,000
issued for acquisition	13,600	87,000
Balance at end of year	4,486,815	$523,000

The company has agreed to issue up to a maximum of 76,000 additional shares of treasury common stock under the terms of an acquisition agreement contingent upon future earnings of a subsidiary.

K. Stock Purchase Plan

Under the Career Executive Incentive Stock Purchase Plan, approved by the shareowners in 1968, rights were granted to 59 officers and employees to purchase 107,200 shares at $12.575 per share, 40% of the quoted market value on the last business day prior to the date of grant.

Under the provisions of the plan, the options, which must be exercised within 60 days after the date of grant, provide for a purchase price equal to the higher of the par value of such shares or 40% of the last reported sales price of such stock on the last business day prior to the date of the grant. The aggregate number of shares which may be sold under the plan will not exceed 200,000 shares which will be made available from treasury common stock.

Sale or disposition of shares sold under the plan is restricted. Restrictions expire from time to time during the employee's service (generally a period of up to 25 years) as to portions of the shares purchased. In the event of termination of employment, the plan provides, with certain exceptions, for the sale of the shares to the company by the employee at the original purchase price.

During the year, options for 103,900 shares were exercised and options for 3,300 shares lapsed or were reacquired by the company.

The excess of the market value at date of grant over the option price (aggregating $1,960,000 for options exercised) is being charged, on a pro rata basis, to income over the period from date of grant to dates on which the restrictions lapse. Annual charges to income in connection with the 103,900 shares issued are insignificant.

On April 9, 1969, rights were granted to 74 employees to purchase 40,000 shares at $16.90 per share, 40% of the quoted market value on the last business day prior to the date of grant.

L. Extraordinary Items

Extraordinary items last year include receipt of an award of $3,210,000 for World War II losses and a charge for net unrealized working capital losses of $3,048,000 due to devaluation of the British pound and certain other currencies.

M. Net Income per Common Share

Per share data is based on the average number of common shares outstanding during each year, retroactively adjusted for the two-for-one stock split (as if effected March 1, 1967) after deducting dividend requirements of $302,000 on the preferred stock, and in 1969 $954,000 (7/12 of the annual dividend requirement) on the convertible preference stock, $2.10 series.

Pro forma per share data assumes that all common shares issuable on conversion of the convertible preference stock, $2.10 series (918,984 shares), had been issued on August 1, 1968 and the convertible preference dividends thereby eliminated.

N. Reclassifications

In 1969, the company adopted new account classifications for certain amounts the most significant of which was a reclassification of service costs (amounting to $2,924,000 in 1969 and $2,871,000 in 1968) from cost of leased machinery operations to selling and administrative. The appropriate account classifications for 1968 have been restated to conform with the 1969 account presentation.

Report of Independent Certified Public Accountants

To the Board of Directors and
Shareowners
USM Corporation

We have examined the consolidated balance sheet of USM Corporation and Subsidiaries at February 28, 1969, and the related consolidated statement of income and retained earnings and the consolidated statement of source and use of funds for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain subsidiary companies which were examined by other independent accountants whose reports have been furnished to us. Our opinion, insofar as it relates to the subsidiary companies not examined by us, is based solely upon such reports. We previously made a similar examination of the consolidated financial statements for the preceding year.

In our opinion, the aforementioned financial statements present fairly the financial position of USM Corporation and Subsidiaries at February 28, 1969, and February 29, 1968, and the results of their operations and the source and use of funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Lybrand, Ross Bros. & Montgomery

Boston, Massachusetts
April 15, 1969

Notes to Five Year Consolidated Summary

Shareowners' equity and current liabilities have been restated to include the litigation settlement with Hanover, net of related tax benefit, as if it had been effected March 1, 1964. In 1969, the company adopted new account classifications for certain amounts, the most significant of which was a reclassification of service costs from cost of leased machinery operations to selling and administrative.

The appropriate account classifications have been restated to conform with the 1969 account presentation.

* Based on average number of shares outstanding during the year (after adjusting for the two-for-one stock split approved by shareowners on July 25, 1968) after deducting the dividend requirements on preferred and preference stock.

** Including extraordinary income 2/29/68 (.03)

*** Including extraordinary income 2/28/65 (.35)

Five Year Consolidated Summary

Income Statement **Fiscal year** (000's omitted)	1969	1968	1967	1966	1965
Sales and other operating income	$311,432	$243,284	$241,378	$207,595	$185,416
Leased machinery revenues	44,677	45,975	45,915	44,902	44,519
Gross revenues	356,109	289,259	287,293	252,497	229,935
Cost of sales	204,371	155,940	156,274	132,006	120,095
Cost of leased machinery operations	18,088	19,169	16,464	16,989	17,900
Research and development expenses	11,939	9,823	9,590	8,488	7,319
Selling and administrative expenses	85,680	78,130	75,744	65,977	57,599
	320,078	263,062	258,072	223,460	202,913
Operating income	36,031	26,197	29,221	29,037	27,022
Other income less other charges	(177)	1,058	958	1,358	1,112
Income before taxes	35,854	27,255	30,179	30,395	28,134
Provisions for U.S. and foreign taxes	17,220	12,588	13,084	13,546	13,501
Income before minority interest	18,634	14,667	17,095	16,849	14,633
Minority interest	1,870	1,882	1,864	2,037	1,605
Net income before extraordinary items	16,764	12,785	15,231	14,812	13,028
Extraordinary items	—	162	—	—	1,615
Net income	16,764	12,947	15,231	14,812	14,643
Earnings retained	$ 8,931	$ 5,901	$ 8,173	$ 8,885	$ 8,585

Financial Position					
Current assets	$207,032	$149,946	$136,364	$119,353	$114,346
Leased machinery — net	67,914	70,701	71,276	70,752	69,789
Property, plant and equipment — net	88,122	71,453	66,771	57,891	49,625
Intangibles and other assets	22,519	12,000	9,754	7,863	6,204
Total assets	385,587	304,100	284,165	255,859	239,964
Current liabilities	62,400	45,109	45,154	36,705	33,270
Long-term debt	40,901	27,530	12,111	1,086	771
Other noncurrent liabilities	17,986	14,605	12,806	12,155	10,231
Minority interest	17,726	17,020	16,988	17,114	15,844
Total liabilities	139,013	104,264	87,059	67,060	60,116
Shareowners' equity	$246,574	$199,836	$197,106	$188,799	$179,848

Per Common Share*					
Net income	$3.47	$2.78**	$3.26	$3.17	$3.13***
Depreciation and amortization	4.64	4.66	4.39	4.12	3.93
Provision for deferred income tax	.14	.23	.31	.13	.05
Total funds from operations	$8.25	$7.67	$7.96	$7.42	$7.11
Dividends paid	$1.55	$1.50	$1.50	$1.25	$1.25

Other Statistics					
Capital expenditures	$ 26,464	$ 30,058	$ 34,848	$ 31,683	$ 20,313
Depreciation and amortization	$ 20,731	$ 21,201	$ 20,141	$ 18,886	$ 17,978
Provision for deferred income taxes	$ 628	$ 1,030	$ 1,426	$ 601	$ 218
Dividend payout	45%	54%	46%	39%	40%
Ratio of current assets to current liabilities	3.3 to 1	3.3 to 1	3.0 to 1	3.3 to 1	3.4 to 1
Average number of common shares outstanding	4,469,098	4,548,952	4,583,502	4,578,662	4,576,222
Number of shareowners	22,607	20,606	21,613	22,486	23,575
Number of employees	25,895	23,250	23,293	22,827	21,706

Market Highlights

The company's worldwide marketing organizations have been expanded to gain greater penetration in USM's major areas of interest. Domestically, a major restructuring has taken place and Industry Marketing Managers have been appointed to explore current sales potentials and to identify and realize new opportunities for USM. They will provide a focus to USM's long-range market planning.

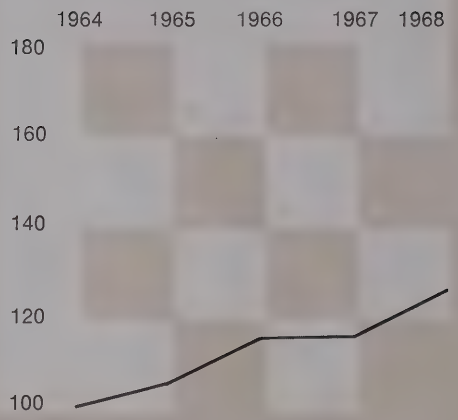
The first markets defined for this special focus were apparel and transportation. More recently, Industry Marketing Managers were appointed to explore USM potentials in the consumer, government and construction fields. Other markets will be examined in the future to determine whether similar coordination and focus at the corporate level would offer benefits.

Here is a brief summary of domestic developments in the major industries which are customers for USM's industrial products.

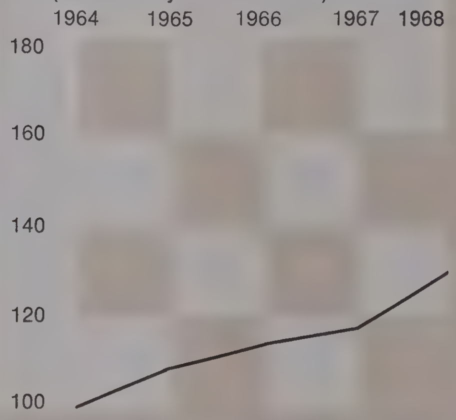
Apparel Market
Size of total industry - $17.1 billion
Growth - 10 per cent over previous year/USM sales fiscal '69 - $1.4 million
Major products - cutting, eyelet, boxmaking and feeding machines, transporters and adhesives

Possibly no other industry offers such an obvious growth potential for USM machinery systems as apparel manufacturing. Operator-dependent production is similar to that found in shoe manufacturing, and USM's experience in producing labor-reducing systems is closely related. Now in use, for example, is the USM Fabric Feeder, a machine which picks up precut fabric sections and then precisely positions them for automatic hemming and labeling. Another important step toward automated apparel manufacture was taken last year with the introduction by USM of a straight-line adhesive seamer for use on disposable products such as hospital gowns.

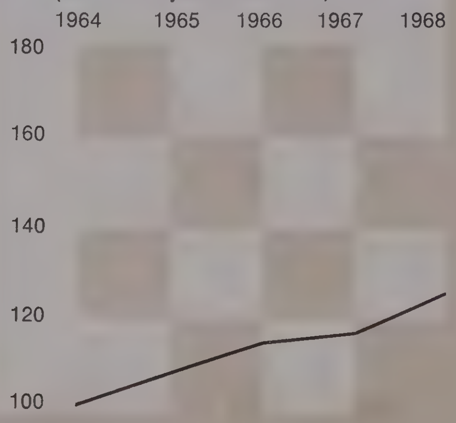
U.S. Apparel Market Growth
(1964 base year: index 100)



U.S. Construction Market Growth
(1964 base year: index 100)



U.S. Hardware Stores Market Growth
(1964 base year: index 100)



Construction Market
Size of total industry - $85 billion
Growth - 10 per cent over previous year
USM sales fiscal '69 - $4.2 million
Major products - AMMO "Power Cap," "POP" rivets, threaded fasteners, masonry anchors, adhesives, coatings, sealants, metal stamping and plastic moldings, powder actuated and pneumatically powered tools.

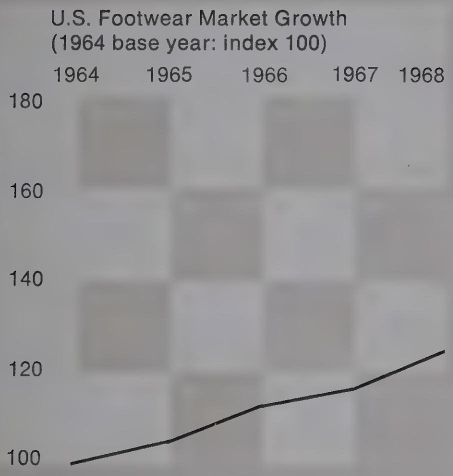
Soaring construction costs have focused attention on products which increase the productivity of on-site labor. New methods of construction provide ready markets for existing types of USM fasteners and adhesives as well as for new products especially developed for construction use. Introduced last year, for example, is the new USM PARABOLT drop-in concrete anchor. Easier to insert and tighter holding than competitive types, it is one of the wide line of products now being offered by a new fleet of USM Mobile Distribution Centers.

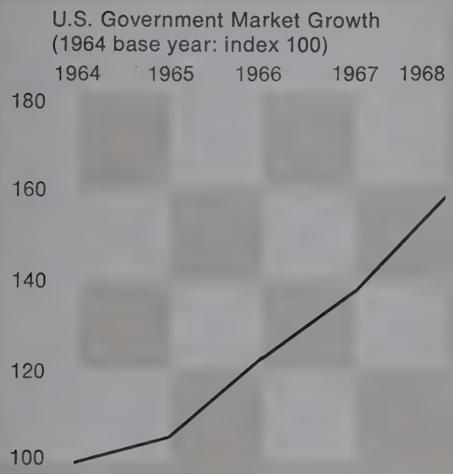
Consumer Hardware
Total size of market - $3.2 billion hardware store sales/Growth - 5 per cent over previous year/USM sales fiscal '69 - $4.1 million/Major products - "POP" rivets and THERMOGRIP kits, hollow wall anchors, masonry anchors, adhesives and sealants.

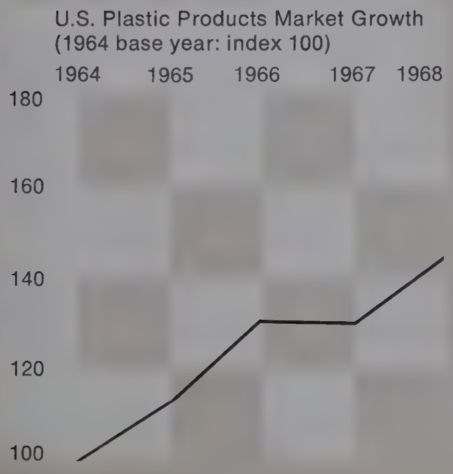
A trend toward more sophisticated tools and hardware items provides a broader consumer market for "POP" rivet and THERMOGRIP glue gun kits. Currently being introduced as a "prestige" or gift item is a deluxe version of our glue gun kit. A number of new USM products being developed for the home market should increase USM consumer sales to several times their current level.

Footwear
Size of total industry - $3.1 billion
Growth - 9 per cent over previous year
USM sales fiscal '69 - $72 million
Major products - footwear, tanning, cutting, plastics, packaging and eyelet machinery, adhesives, finishes, boxes, brushes, shanks and plastic soles.

The continuing trend to synthetics in footwear calls for certain new


U.S. Footwear Market Growth
(1964 base year: index 100)


U.S. Government Market Growth
(1964 base year: index 100)


U.S. Plastic Products Market Growth
(1964 base year: index 100)

machinery to process them. The materials consumed also represent a growing new market. Although a USM injection molding system was first used last year to make workboots with lightweight foamed vinyl soles, what could be of greater significance is the fact that the polymers used were a new product of USM's Chemical Division.

Government
Size of total market - $203 billion
Growth - 14 per cent over previous year
USM sales fiscal '69 - $4½ million
Major products - aerospace mechanisms, fasteners and adhesives.

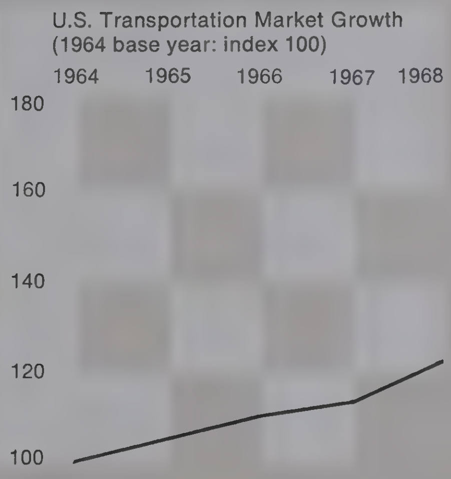
Though many of the USM divisions have been responsive to government requirements in the past, USM's new Industry Marketing Manager system will permit the company to select and optimize opportunities to supply products, equipment or systems needed by the civilian and military sectors.

Plastic Products
Size of total industry - $17.0 billion
Growth - 13 per cent over previous year
USM sales fiscal '69 - $22 million
Major products - mixers, mills, calenders, extruders, injection molding and rotational molding machinery, cutting, packaging and eyelet machinery, "POP" rivets, eyelets, threaded fasteners, adhesives, coatings, sealants, brushes, metal stampings and plastic moldings.

Growth in the use of plastics by many industries is expected to continue. The recent merger with Farrel makes USM one of the most completely integrated machinery suppliers, offering systems which range from raw material processing to product molding. New developments include systems for injection molding of low-cost foamed or high-strength reinforced plastics, and a zero-pressure rotational molding system particularly suitable for the production of hollow items. Our Chemical Group has begun to market new types of polyester resins particularly suited to the formulation of coatings, adhesives and inks. This new market for consumable products results from internal development of basic resins which has also resulted in lower production costs on USM's major chemical product lines.

Transportation Market
Size of total industry - $43.1 billion
Growth - 9 per cent over previous year
USM sales fiscal '69 - $15.4 million
Major products - extrusion presses, wheel and axle lathes, plastic processing, cutting and eyelet machinery, "POP" rivets, eyelets and threaded fasteners, adhesives, coatings, sealants, metal stampings, plastic molding, weld-studs and clips, and welding equipment.

Relatively untapped by USM in the past, the huge market provided by automobile, truck, and airframe industries is an obvious target for the company's products, systems and service capabilities. One major automotive manufacturer, for example, has just started to use our cementing and folding machine coupled with THERMOGRIP adhesive, to replace a hand operation in the fabrication of vinyl car tops. Cars of every U.S. manufacturer use one or more USM products.


U.S. Transportation Market Growth
(1964 base year: index 100)

In order to identify the capabilities of the new USM Corporation, we have added the words "Research/Systems/ Manufacturing" to our corporate signature. The following pages describe and illustrate the meaning of these words as they relate to USM activities.

Creative research and development provide USM with a strong foundation for growth. In these efforts, corporate long-range research is conducted primarily at the Research Division in Beverly, Mass. Related new product and process development activities are conducted by each commercial group in both domestic and international locations. In a word, we research at the corporate level and develop specific products within profit centers.

As part of its long-range research planning, USM surveys new technological, market and social developments throughout the world. This information is then examined in conjunction with USM's capabilities in order to select major research opportunities in present and future markets.

A typical example is USM's exploration of the fundamentals of adhesion. The results of this research will provide broad knowledge which can be applied to customer problems ranging from fastening nameplates on appliances to adhesive applications in space capsules.

Another example is USM's plastics program. Based on its extensive experience in developing machines, molds and plastic formulations, USM has introduced a new system for injection molding of high-quality foamed plastics with a surface texture enabling the realistic simulation of wood or leather.

The new system promises to broaden the use and lower the cost of rigid and flexible foamed plastics. Typical market uses foreseen include automotive interior trim, furniture and building components as well as insulated consumer products. We are continuing to extend the range of products which can be produced and the plastic materials which can be used.

For the fiscal year just ended, USM invested an above-average amount for R&D as compared to similar companies. The pay-off in many areas will not become evident for several years. An example of past performance, however, might be an indication of the future. In the chemical area 50 per cent of our current volume is derived from products developed in USM labs over the last five years.

USM's worldwide research and development activities are coordinated and exchanged to provide the company with capabilities to satisfy the needs of its markets regardless of geographic area. One promising area for worldwide application is in control technology for industrial machinery. Research studies include the evaluation of fluidic, mechanical, electronic and electrical controls or combinations of these for various future systems being created. On-site computer control of machinery systems is a major research goal.

Other projects are concerned with the development of adaptive controls for process machines which monitor and analyze measurements and then feed back commands to the machine to maintain product specifications. Plastic injection molding systems represent one potential application for such controls. USM also utilizes computers in its research activity through programs for technical problem solving, simulation of factory and technical systems as well as for analyzing potential profitability of new product ideas.

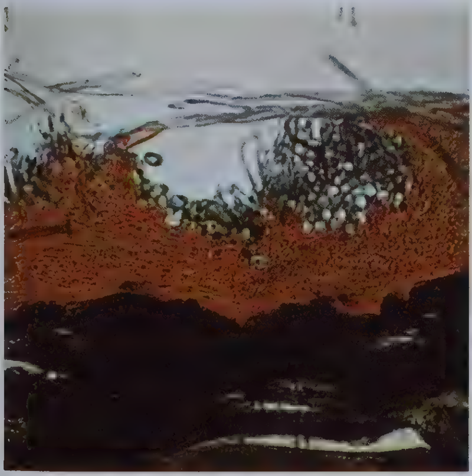
In many cases, our research activities involve inputs from different company operations. For instance, a new automatic shoe bottom roughing machine which eliminates the need for a skilled operator and which assures uniform quality was developed by our researchers in Great Britain using brush components developed by our subsidiary, S. A. Felton & Son Company in New Hampshire. While primary use of this machine will be in Europe, it appears to have good market potential in the U. S. as well.

Results of our research can be best illustrated by the new products USM is developing such as a system which provides automated assembly of flexible parts for shoe uppers, wallets and other items. Systems engineering is an important element in USM's future and is discussed more fully in the next section.

Above: Water vapor permeability is studied on a rotary table device to learn the rate of moisture transmission of shoe upper and related materials.

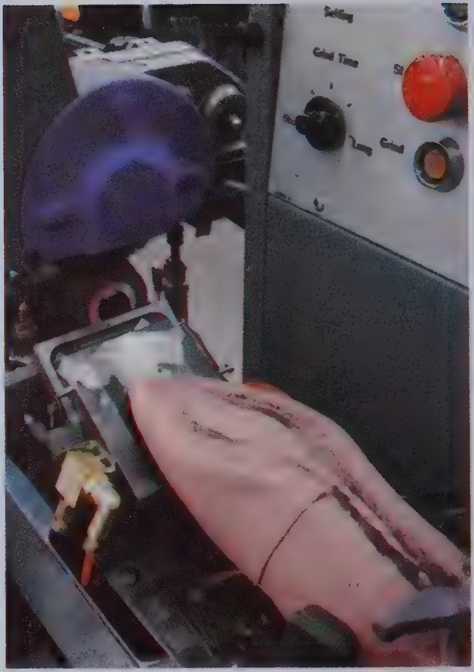
Right: A diamond probe penetrating the surface of this sample piece of iron enables technicians to determine the physical characteristics of the metal.

Below: Fabric to leather bonds magnified 150 times are studied under a microscope to learn the effect of variables in adhesive compositions and surface preparation. The leather portion is the dark area on the bottom of this photo with the brown layer of adhesive in the middle and the fabric on the top.

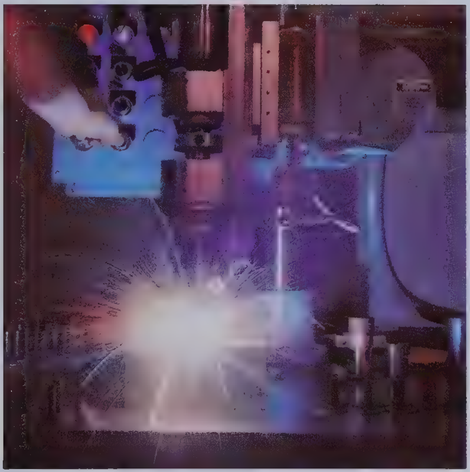


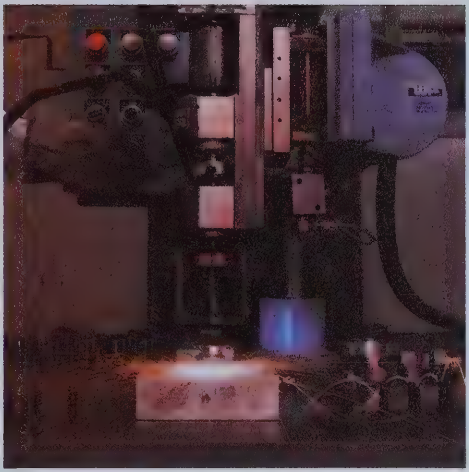
Left: Basic research on polymer spreading and low energy bonding are conducted in an environmental chamber. The droplets are of different types of adhesives.

Above: Polymer drops are put into this temperature and atmospheric controlled chamber for high-speed photographic studies on the wetting and spreading of adhesive materials.



Above: This USM automatic bottom roughing machine used with cement construction footwear eliminates the need of a skilled operator. The machine, developed by our British subsidiary, removes the surface of the upper material by wire brushes made by our Felton brush subsidiary.





Above: Research towards improved shielding is leading to larger capacity, safer and lower cost USM stud welding systems that should extend the range of commercial utilization. Left photo shows an early type shield. Right photo shows how an improved shield cuts down the flash.

Left: ACE — the name for newly developed automatic closing equipment that gathers, assembles and bonds four pieces of shoe components: tongue lining, tongue, vamp lining and vamp. The ACE machine is also being considered for use in various non-footwear areas where component materials are combined and bonded.

Fundamentally USM helps other industries produce their products or provide services in less time and at lower cost. We do this on a worldwide basis, and we do it by supplying integrated systems. By systems we mean the specialized combination of modern methods, automatic mechanisms, advanced materials, and the support service which includes essential know-how. Historically, the footwear industry has been USM's prime customer for system-engineered products. During the last several years, however, the company has diversified into new markets that have proved to be highly receptive to USM's systems capabilities.

For example, Warren Division offers a "no-hole" fastening system which has been widely adopted by automotive companies. The Warren system in one application welds one or more studs directly to the car body and fastens plastic clips which enable the trim to be snapped into place. More importantly, it does this without puncturing holes in the body of the car for the stud which eliminates water and fume leaks, rust and corrosion. Warren makes the complete system — the studs, plastic clips and the components of the automatic welding gun.

The automotive industry in Europe is also served by other products and systems including SOLBIT for bonding windshields, rear windows and fixed side windows. SOLBIT, now manufactured by our chemical operations in England and West Germany, is a unique rubber-like tape in which is imbedded an electrical resistance wire. Once the SOLBIT is pressed around the glass and the glass is positioned in the auto body, the wires are electrically charged to cure the tape to a high-strength resilient seal, bonding the glass securely to the steel body.

In the footwear field, the TRU-LINE Box Toe system enables a unique machine to apply a thermoplastic material to a shoe upper, replacing the separate toe stiffener. Prior to the advent of the TRU-LINE system, stiffeners had to be purchased and stocked in a wide variety of types, styles and sizes. A single roll of plastic cordlike material now accommodates all styles and size requirements by simple machine adjustments.

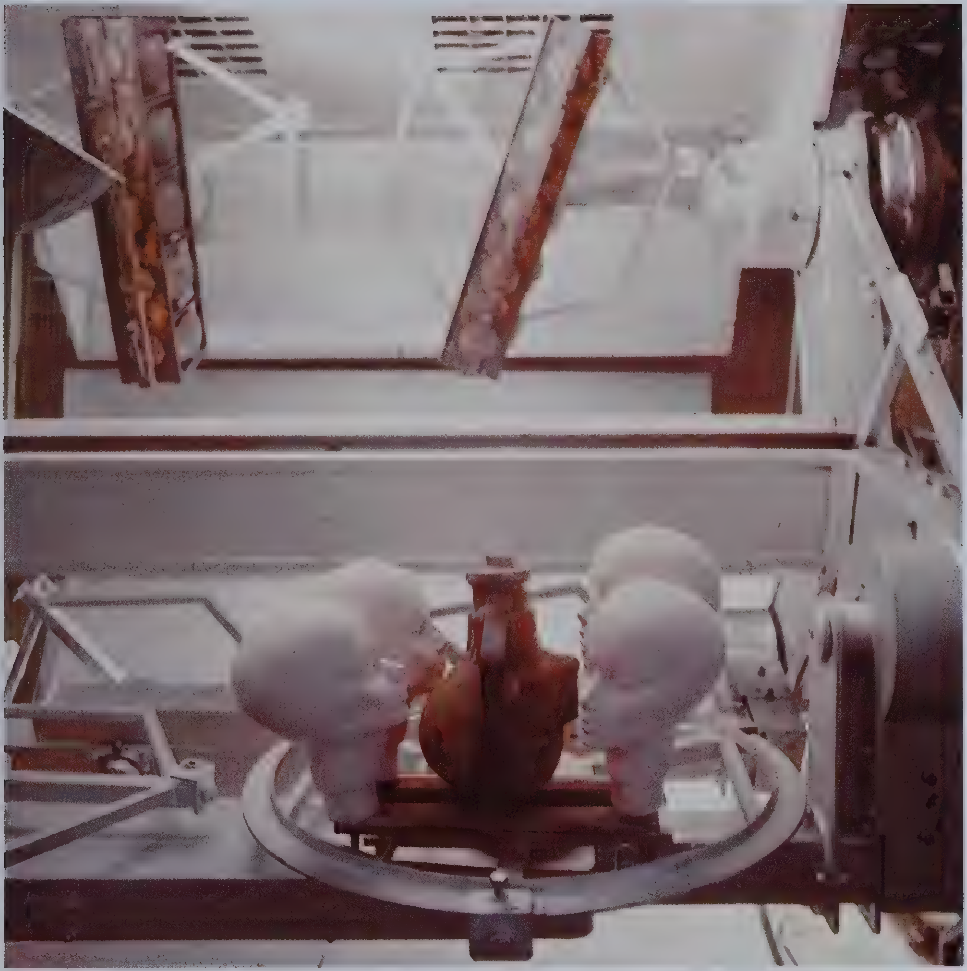
For more than a decade, the electronics industry has used USM equipment for inserting components into printed circuit boards. We have kept pace with the new generations of computers utilized by our customers — particularly in new concepts of micro-miniaturization used in computer circuitry. Recently delivered were the first units of highly sophisticated dual in-line package insertion machines which are numerically controlled.

Through the Farrel Company Division, we have added another dimension to USM systems capability. Farrel designs complete systems, involving the entire production process line. In some cases, these lines encompass the required equipment for all phases of manufacture from the unloading of raw material to the shipment of the end product, while in others, a "package" is created to handle all operations in one specific processing area.

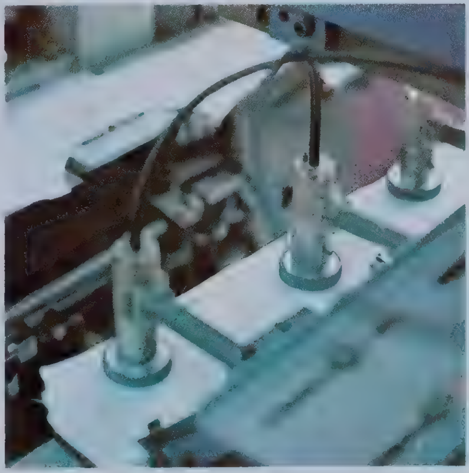
Due to the scope and sophistication of the equipment required to create processing lines, some manufacturers are unable to retain "in house" the technical personnel necessary to handle the design and installation of such a system. Farrel's ability to assume this responsibility has expanded its potential market and has resulted in new machine developments and the sophisticated controls required by integrated process lines.

An example is Farrel's worldwide activity in the rubber industry. The growing need to automate and systematize the many processes stems from the necessity to reduce unit costs. A similar requirement has led to widespread installation of complex automated lathes and roll grinders in the steel and aluminum industries.

In addition to their other major product lines, one of the largest and most modern systems produced by Farrel is a machining center used by customers in the manufacture of nuclear power generating units. These giant multipurpose machine systems are designed to perform at one work station a wide variety of machining operations which previously required costly and time-consuming work piece transfers from one machine to another. They incorporate innovations in numerical control, computer programming, preset tooling, special fixtures and optical alignment. The most recently delivered Farrel machining center is five stories high, has the width of a five-lane expressway, and contains enough cooling oil to fill the crankcases of 1,100 automobiles.



Above: New type rotational molding equipment for plastics made by USM in England with modifications for the American market produces hollow mannequins for beauty shops used to display wigs. Rotational molding is a zero pressure system, and provides an economical method of making a wide range of products used in automotive equipment, furniture, advertising and toys.



Right: USM's new Fabric Feeder is being used commercially in the apparel industry. The upper photo shows the feeder picking up fabric from a cut stack and transfering it to an adhesive label machine. The lower photo is a close-up of the sensitive working heads that can be adjusted to pick up single or dual plies of fabric for adhesive or sewing machines.

Above, left: Rows of automatic two-color Farrel injection molding machines operate round the clock turning out large plastic parts such as (above) tail lights. These automated units are making two-color tail lights using the same molds for the dual operation. The automotive industry is a major customer of USM plastic injection molding equipment.

Right: One of the largest tape-controlled machine tools in the world is this Farrel machining center used to make frames for large electric generators. This Farrel unit took two years to design and build. It is 100 feet long and weighs more than 860 tons. The machining center can handle frames as large as 16 feet in diameter, 38 feet long and weighing up to 160 tons and mill them to an accuracy of thousandths of an inch.

Left: One of the newest and most complex stud welding units produced by USM is this automatic machine which fastens 11 studs in rapid succession to the instrument panel of an automobile. The studs are used to fasten a variety of gauges, switches and instruments to the instrument panel.

USM translates the results of its research and systems engineering into production realities at modern plants strategically located to serve all major world markets. To meet the diverse product needs of its customers, USM has developed manufacturing capabilities in such fields as precision machinery, polymer chemistry, electronics, plastics and precision metal stampings.

At the end of fiscal 1969, we had on stream 38 principal manufacturing plants located in 20 American communities and in 14 countries in the free world. About 15,000 USM production workers produce goods and services from more than 8,700,000 square feet of floor space.

Throughout the world, and with respect to all aspects of our manufacturing program, we have continued to follow the policy of progressive replacement of older production equipment in order to uphold the USM quality image and to maintain our manufacturing capability at peak efficiency. Notable in the machinery manufacturing area has been the addition of numerous tape-controlled machine tools of the very latest design.

During the year we have expanded our productive capacity in the U.S. and overseas. By mid-1969 a new 40,000 square foot polymer plant will be on stream at the company's chemical facilities in Middleton, Mass., which will triple our capacity in polyesters, polyurethanes and polyamides. A new plant was recently completed in Puerto Rico where custom plastics molding serves USM divisions as well as outside customers. In Japan, a new "POP" rivet plant was built by our jointly-owned Nippon Pop Rivets and Fasteners, Ltd. This new plant will serve the growing industrial market in Japan as well as in Southeast Asia. Another joint venture company with Japanese interests, Bostik Japan, Ltd., completed a new chemical product manufacturing plant during the year.

The Farrel operations have provided USM with three new broadly integrated manufacturing complexes. These plants are capable of producing capital equipment goods substantially heavier than those previously manufactured by USM. The Farrel plants are geared to handle the most exacting demands of individual customer requirements and the manufacturing flexibility required in making Farrel products.

While USM's manufacturing capabilities are primarily industrial, our product line is, nevertheless, varied. It extends from small gears used in missile controls to giant cutting machines; from small one-inch brushes to remove dust from computer tapes to automated adhesive applicators for making disposable surgical gowns; from heavy duty internal mixers for plastics processing to precision machine tools for making electrical power generating units.

USM manufacturing capabilities are often translated to other industries such as the manufacture of consumer products. Most likely the cereal boxes and frozen food containers with which you are familiar were sealed by our THERMOGRIP adhesive system and probably the cereal itself was ground with Farrel rolls in its manufacture. Our plastics processing machinery is also used to manufacture new films for food preservation or packaging techniques found in your local supermarket.

Some of our products are used directly on products sold by other manufacturers. More than 600 different types of metal fastening devices are used by the transportation industry, including rivets, eyelets, self-locking nuts and bolts and other types of fasteners. The aircraft industry utilizes USM adhesive films to achieve the variety of decorative jet interiors keyed to the individual airline color combinations. Giant wheel-truing machines manufactured by the Farrel Division are used by the railroad industry to reshape wheels without removing them from the locomotives.

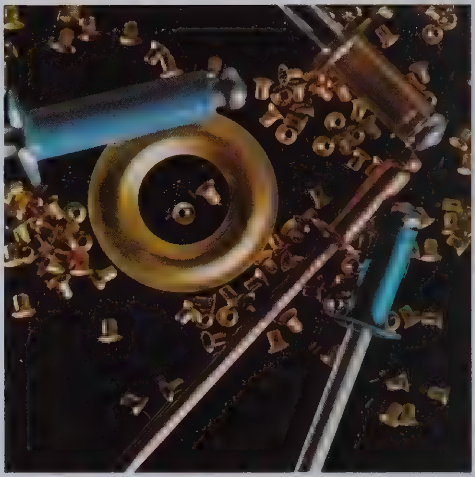
For the future, USM will continue to expand its manufacturing capabilities to meet the diverse needs of its customers the world over.

Above: Household chemical products such as insect repellent, window cleaner, shoe and furniture polishes, oven cleaner, coloring materials and adhesives are manufactured by Bostik AB, a USM subsidiary in Sweden, for sale throughout the Scandinavian area.

Above: Battery of plastics injection molding machines on assembly floor at giant Beverly complex is typical of USM manufacturing operations.

Above: Precision metal products such as these shields used in automotive headlamps to keep glare from the eyes of oncoming drivers are made by Truelove & Maclean, Inc., USM subsidiary. Truelove & Maclean also make components for the electronic industry.

Left: Adhesives developed by USM for new type lightweight, laminated printed circuits have been adopted by one automotive company for its luxury car. This type of flexible circuit is also used in the aerospace program because of its reliability and light weight.



Above: Billions of fasteners are produced annually by USM throughout the world. The sample shows eyelets and rivets used by industry and the home handyman.

Left: Automobile bumpers are stamped at B. U. Engineering, a USM subsidiary plant at Port Elizabeth, South Africa.

Above: This chemical reactor is used to make polyester for adhesives. Expanded chemical facilities will enable USM to produce and sell a variety of new resins to industrial customers.

Right: Farrel roll grinders such as this one are used by the metal rolling industry to refinish rolls. This grinder has an electronic micrometer to record the roll shape and diameter for better roll quality control.

U.S. and Canadian Operations

FARREL OPERATIONS

Farrel Company Division
Ansonia, Connecticut
Rochester, New York

MACHINERY GROUP

Cutting Die Division
St. Louis, Missouri

Gear Systems Division
Wakefield, Massachusetts

Krippendorf Kalculator Co.
Lynn, Massachusetts

Lombard Plastics Machinery Division
Ashland, Massachusetts

Machinery Division
Beverly, Massachusetts

Transamerican Shoe Machinery Corp.
Boston, Massachusetts

Inter-Coastal Shoe Machinery Corp.
Boston, Massachusetts

Medway Division
Medway, Massachusetts

Standard Tool Division
Leominster, Massachusetts

Turner Tanning Machinery Division
Peabody, Massachusetts

Whitman Metal Stamping Division
Whitman, Massachusetts
Plymouth, New Hampshire

FASTENER GROUP

Fastener Division
Shelton, Connecticut
Hopkinsville, Kentucky

Molly Fastener Division
Temple, Pennsylvania

Nylok Fastener Division
Paramus, New Jersey
Lincolnwood, Illinois
Torrance, California

Parker-Kalon Fastener Division
Clifton, New Jersey
Campbellsville, Kentucky

Warren Division
Mt. Clemens, Michigan

CHEMICAL GROUP

Chemical Division
Middleton, Massachusetts
Kenton, Tennessee

Girder Chemical Division
Carlton Hill, New Jersey

Upco Chemical Division
Cleveland, Ohio

CUSTOM FABRICATION GROUP

S.A. Felton & Son Company
Manchester, New Hampshire
Canadian Branch: *Hamilton, Ontario*

Hoague-Sprague Division
Lynn, Massachusetts

Converter Division
Leominster, Massachusetts

Boxboard Division
W. Hopkinton, New Hampshire

Truelove & Maclean, Inc.
Waterbury, Connecticut

USM Precision Products, Inc.
Caguas, Puerto Rico

CANADIAN GROUP

USM Limited
Montreal, Quebec

Farrel Canada Limited
Toronto, Ontario

SALES AND SERVICE GROUPS

FOOTWEAR INDUSTRY SALES ORGANIZATION DISTRICT OFFICES
Auburn, Maine
Brockton, Massachusetts
Cincinnati, Ohio
Harrisburg, Pennsylvania
Haverhill, Massachusetts
Johnson City, New York
Lynn, Massachusetts
Milwaukee, Wisconsin
Nashville, Tennessee
New York, New York
Northboro, Massachusetts
St. Louis, Missouri
San Juan, Puerto Rico

GENERAL INDUSTRY SALES ORGANIZATION REGIONAL OFFICES
Atlanta, Georgia
Berkeley (Chicago), Illinois
City of Commerce (Los Angeles), California
Woburn (Boston), Massachusetts

Consumer Products Division
Reading, Pennsylvania

Mills Transfer Company
Boston, Massachusetts

Nylok Licensing Division
Boston, Massachusetts

International Operations

BOSTON REGION

USM International Finance Corporation

CARIBBEAN AREA
United Shoe Machinery Company de Pan-America

JAPAN
Bostik Japan, Ltd., *Tokyo*
Nippon Pop Rivets and Fasteners Ltd., *Toyohashi*
USM Far East Ltd., *Tokyo*

BRITISH REGION

AUSTRALIA
The British United Shoe Machinery Company of Australia Pty., Ltd., *Melbourne*
Bostik Australia Pty., Ltd., *Thomastown*
Elta Plastics Australia Pty., Ltd., *Thomastown*
Samco-Strong Machinery Pty., Ltd., *Melbourne*
Tucker Industries Pty., Ltd., *Mitcham*

ENGLAND
The British United Shoe Machinery Company Ltd., *Leicester*
Bitumen Industries, Ltd., *Slough*
Bostik Ltd., *Leicester*
Elta Plastics Limited, *Stockton-on-Tees*
John Orme Ltd., *Rushden*
Samco-Strong Ltd., *Leicester*
Service (Engineers) Ltd., *Stoke-on-Trent*
George Tucker Eyelet Co. Ltd., *Birmingham*
Turner Machinery Ltd., *Leeds*
United Marketing (Leicester) Ltd., *Leicester*
Whitfield, Hodgson and Brough Ltd., *Kettering*

INDIA
The Indian Tack & Nail Co. Ltd., *Calcutta*

IRELAND
Bostik (Ireland) Ltd., *Dublin*
Belturbet Manufacturing Company Ltd., *Belturbet*
General Products Ltd., *Dublin*
O.A. Miller (Ireland) Ltd., *Belturbet*

JAPAN
Japan United Shoe Machinery Co. Ltd., *Tokyo*

NEW ZEALAND
The British United Shoe Machinery Company of New Zealand Ltd., *Wellington*
Bostik New Zealand Ltd., *Wellington*

SOUTH AFRICA
British United Shoe Machinery Company, (South Africa) (Pty.) Ltd., *Port Elizabeth*
Bostik (Pty.) Ltd., *Port Elizabeth*
B.U. Engineering (Pty.) Ltd., *Port Elizabeth*

CONTINENTAL REGION

AUSTRIA
Oesterreichische Vereinigte Schuhmaschinen GmbH, *Vienna*

BELGIUM
United Shoe Machinery Company, SAB, *Brussels*
Farrel Benelux, *Liege*

DENMARK
United Shoe Machinery Company A/S, *Copenhagen*
Vibe-Hastrups Kemiske Fabriker A/S, *Copenhagen*

FINLAND
United Shoe Machinery Company Oy, *Tampere*

FRANCE
United Shoe Machinery Company de France, *Paris*
Bostik SA, *Epinay-sur-Seine*
Farrel France, Sarl, *Paris*
Machines Turner, *Ivry-sur-Sein*
Manufacture Française d'Oeillets Metalliques, *Paris*

WEST GERMANY
Deutsche Vereinigte Schuhmaschinen GmbH, *Frankfurt/Main*
Bostik GmbH, *Oberursel*
Farrel GmbH, *Frankfurt/Main*
Maschinenfabrik Turner AG, *Oberursel*
Trockentechnik, GmbH, *Homberg/Niederrhein*
Tucker Metallwaren GmbH, *Giessen*

ITALY
United Shoe Machinery Company d'Italia SpA, *Milan*
Farrel Italiana s.r.l., *Milan*
USM Chemical SpA, *Milan*

NETHERLANDS
Verenigde Schoenmachine Maatschappij NV, *Waalwijk*
Farrel International NV, *Amsterdam*
Bostik, NV, *Dordrecht*

NORWAY
United Shoe Machinery Company A/S, *Oslo*
Bostik A/S, *Oslo*

PORTUGAL
United Shoe Machinery Portugal, *Leca da Palmeiva*
Bostik-Colas e Vedantes Ltda., *Povoa, de Santo Adriao*

SPAIN
Union de Maquinaria para Calzado, SA, *Barcelona*
Bostik SA, *Barcelona*

SWEDEN
United Shoe Machinery Company AB, *Orebro*
Bostik AB, *Helsingborg*

SWITZERLAND
United Shoe Machinery Corporation (International), *Lausanne*
Vereinigte Schuhmaschinen AG, *Zurich*
Bostik GmbH, *Zurich*

LATIN AMERICAN REGION

ARGENTINA
United Shoe Machinery Company Argentina, *Buenos Aires*

BRAZIL
Companhia United Shoe Machinery do Brasil, *São Paulo*

CHILE
United Shoe Machinery Company of Chile, *Santiago*

MEXICO
USM Mexicana, SA de CV, *Mexico City*
Farrel Mexicana, SA, *Mexico City*

URUGUAY
United Shoe Machinery Company of Uruguay, *Montevideo*

VENEZUELA
USM de Venezuela, CA, *Caracas*
Farrel Andes SRL, *Caracas*

FARREL AFFILIATES

David Bridge & Company, Ltd., *Rochdale, England*
Pomini Farrel SpA., *Castellanza (Varese), Italy*

Management Changes

Robert D. Salinger
Vice President and General Counsel
retired from company July 31, 1968

Robert M. Bigelow
Vice President, Research
retired from company October 31, 1968

Franklin Farrel, 3rd
President, Farrel Corporation
became Executive Vice President, USM
December 31, 1968

A. Austin Cheney, *Chairman*
Farrel Corporation
became Vice President,
USM December 31, 1968

Walter L. Abel, *Assistant*
Vice President, Research
elected Vice President March 26, 1969

Directors

C. George Bennion
Chairman and Managing Director,
British United Shoe Machinery Co. Ltd.

Harold E. Booma †
Executive Vice President

Lloyd D. Brace *
Former Chairman,
The First National Bank of Boston

William S. Brewster *†
Chairman

George R. Brown *
Retired Chairman, USM

A. Austin Cheney †
Vice President

Franklin Farrel, 3rd *†
Executive Vice President

Frank L. Farwell
President,
Liberty Mutual Insurance Companies

John M. Fox
Chairman, United Fruit Company

George A. Goss, Jr.
Vice President,
Scovill Manufacturing Company

Harvey P. Hood *
Chairman, H. P. Hood & Sons, Inc.

Herbert W. Jarvis *†
President

John H. Meyer †
Vice President and Treasurer

Henry D. Sharpe, Jr.
President,
Brown & Sharpe Manufacturing Company

Robert G. Stone *
Trustee

Thomas D. Welch †
Executive Vice President

* *Member of Executive Committee*
† *Officer of Corporation*

Officers

William S. Brewster
Chairman of the Board and
Chief Executive Officer

Herbert W. Jarvis
President and Chief Operating Officer

Harold E. Booma
Executive Vice President
U. S. and Canadian Operations

Thomas D. Welch
Executive Vice President,
International Operations

Franklin Farrel, 3rd
Executive Vice President, Farrel Operations

John H. Meyer
Vice President and Treasurer

John E. Webb
Vice President, International Operations

Richard L. Hobbs
Vice President, General Counsel, U.S.A.

Robert W. Maynard
Vice President, General Counsel, International

A. Austin Cheney
Vice President

Walter L. Abel
Vice President, Research

Bruce H. Anderson
Assistant Vice President, International

William J. Horne
Assistant Vice President
Management Information Systems

Donald E. Houser
Assistant Vice President, International

Edgar E. Joiner
Assistant Vice President, Machinery Division

Edwin T. Mitchell
Assistant Vice President, Chemical Group

Richard K. Perry
Assistant Vice President, European Operations

Alan W. Sampson
Assistant Vice President, Machinery Group

Dana W. Woodward
Assistant Vice President,
Footwear Industry Sales

Robert S. Stockwell
Controller

Edward P. Chase
Secretary

William H. Dykstra
Assistant Treasurer

Printed in USA. C125-569

USM Corporation
Research / Systems / Manufacturing